

## Investment policy statements

The Charity Commission encourages charities that carry out investment to have a written investment policy.



**Oliver Scutt**  
Associate  
T: 020 7551 7689  
o.scutt@bwblp.com

Oliver is an Associate in the Social Finance team. He has experience in structured and project finance, venture capital, private equity as well as general corporate/commercial.

### Oliver Scutt outlines the position

Those charities fortunate enough to have investible assets that are not immediately needed for their charitable objects are permitted to make investments, provided they have the appropriate investment powers.

What constitutes an ‘investment’ is not clearly defined by statute, but the courts have sought to interpret it over the years. Investments may include traditional bonds, equities and property, but may also incorporate infrastructure funds and specialised areas of private equity, hedge funds, derivatives and absolute return funds, among others.

The Charity Commission has historically recognised three forms of investment by a charity:

- i) **financial investments:** simply looking to achieve a reasonable risk-adjusted financial return on capital invested;
- ii) **programme-related investments:** concerned with exclusively furthering the charity’s aims, with a possibility – but not necessarily an expectation – of financial return; and
- iii) **‘mixed motive’ investments:** justified by a combination of the expected financial return and the extent to which the investment advances charitable objects.

The Charity Commission’s guidance, *CC14: Charities and investment matters: a guide for trustees*, encourages all charities that do invest to put in place a written investment policy, regardless of the value of the charity’s investible assets. A charity’s investment policy should reflect its financial position and requirements, but essentially it should provide a framework to assist trustee decision-making and set out the objectives and key considerations for how investments should be made and managed.

If a charity uses an investment manager then it must have an investment policy and should enter into a legal agreement with that manager setting out the key responsibilities and obligations of the manager, e.g. that the manager should invest in line with the investment policy and should report to the charity on a regular basis to enable the trustees to comply with

their investment duties. Preparation of the investment policy cannot be delegated to the manager as it is owned by and the responsibility of the charity; on that basis, the trustees should always approve and maintain oversight of it.

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Each investment policy should align with and complement the charity’s other policies – such as its reserves policy and risk framework – to assist in the delivery of its overall strategy. On that basis, Charity Commission guidance is that an investment policy should usually include:

- a description of the scope of the charity’s investment powers and of acceptable types of investment for the charity, e.g. ethically screened investments and any environmental, social or governance factors that a charity wants its managers to consider or its investments to reflect;
- investment objectives, e.g. investment allocation, asset classes, target returns, risk appetite, performance metrics, quantum, hold period and liquidity needs;
- who makes which investment decisions, e.g. trustees, executives, investment managers;
- reporting, review and approval processes for the manager, trustees and any sub-committees.

Under changes to charity law introduced in summer 2016, all charities, except those founded by Royal Charter or Act of Parliament, have a statutory power to make ‘social investments’. Essentially this is where an investment is made with a view to a financial return, as well as directly advancing the charity’s objects – thus creating an even stronger legal basis for the programme-related and mixed motive investments mentioned above. Where a charity makes a social investment, trustees will be subject to specific social investment duties.

**Find out more**  
The Charity Commission’s guidance on investment can be found at [www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14](http://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14)